Private healthcare in China

Managing director Alan Lam looks at the influences at work on the Chinese private healthcare market, and considers the obstacles for growth within the sector.

China is booming. It is now the world's second-largest economy, with a population of 1.2 billion people. That demographic includes a confident and growing middle class with increasingly sophisticated tastes and high service expectations.

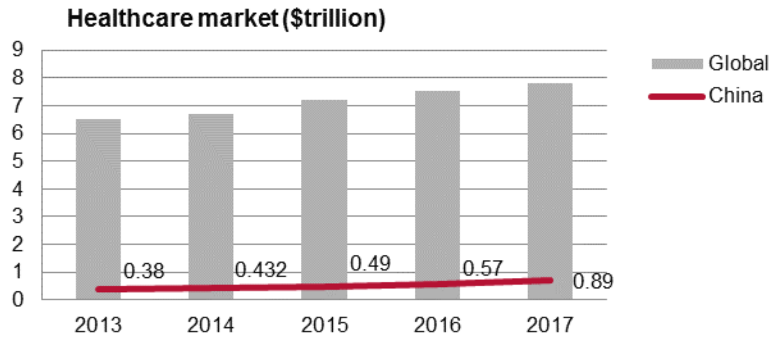
As a result, there are huge opportunities for foreign direct investment. Barriers to entry into the local marketplace can be quite high and the process of establishing a presence quite lengthy, but tenacity pays off, and the rewards can be more than worthwhile.

One relatively new area with a promising economic future is private healthcare. This sector has been expanding for the last decade or so, but it is still relatively immature and so ripe for future growth.

At present, China's health provision is mainly based on a public model similar to those found in Europe. Social insurance is often provided by employers, while treatment – including at a primary care level – takes place in local public clinics and hospitals.

However, many Chinese believe that international healthcare standards are higher than those in domestic facilities, preferring to use overseas hospitals if they can afford it. For this reason, Hong Kong is a popular destination for medical tourism, as is Thailand. In total, some 11 million Chinese a year move across borders to receive treatment in this way.

This pent-up demand means that an indigenous private healthcare infrastructure is springing up within China itself. In 2015, only about 10 percent of health provision was privately provided, but this is growing organically. The consulting firm McKinsey estimates that, within around three years, the total value of all healthcare within the country will be some US$1 trillion. A related projection shows that the sector was expected to grow by almost 14% year-on-year from approximately $400 million in 2013 as shown in the graph below.



Source: Hitachi Consulting

Given the size of China's population, this isn't quite as eye-watering a sum as it sounds. On a per-capita basis, it works out at about a third of the UK's publicly-funded National Health Service. Nevertheless, and especially given economies of scale, it shows the huge potential of the market for outside investors.

There are other influences at work on the Chinese private healthcare market alongside the general growth in affluence. As in much of the rest of the world, the elderly population is increasing, with older people often requiring the kind of specialist treatment that the public system may not be best equipped to provide. China's elderly population – those aged 60 or older – is to rise by 90% to 240 million by 2040, according to the World Health Organisation.

Another driver is that returned Chinese expats have experienced quality health provision overseas and have an expectation or hope of receiving the same standard of care on returning home.

Given China's recent past and ideology, it would be easy to assume that its government would frown on market-driven healthcare. In fact, the opposite is the case. The country's rulers want to see their nation as a world leader and for it to have a reputation for quality in healthcare provision as much as in anything else.

They would be delighted to see incoming medical tourism – a tiny market at present and largely involving local specialities such as acupuncture and traditional medicine – as this would help validate their international reputation for excellence and boost national pride.

At present, unsurprisingly, most private healthcare investment in China comes from overseas companies. In the longer term, it is likely that local participation in the sector will grow, partly as a result of skills transfer from foreign staff.

One of the biggest obstacles to growth is that doing business in this vast and diverse country can be slow and highly bureaucratic. A complex series of government approvals are needed, meaning there are a lot of hurdles to be overcome. Forming political and commercial alliances may benefit the process by strengthening local support.

In addition, Chinese medical and administrative staff may be reluctant to move out of public clinics and hospitals, either because they are already satisfied with pay and have career prospects that they know and understand, or because their employers may be reluctant to let them go. Public healthcare providers tend to discourage migration of their doctors to the private sector, viewing this trend as a waste of their own investment in training. There is debate over whether a medical professional should or should not be free to move to the private sector, even if the salaries are higher.

Another potential issue is reputation. An investor may be a well-known and highly regarded healthcare provider in Europe or the USA but unknown in China. That means trust, brand and profile have to be built from scratch.

However, there is some good news too. The Chinese government is keen to encourage the development of the private healthcare sector and is working to incentivise overseas investors by cutting down on red tape.

Part of the reason for this is to try and relieve overcrowding in public hospitals, and in 2015 a State Council edict was issued to streamline approvals of private clinics, particularly in niche areas of medicine.

As foreign investors will have to either refurbish an existing built asset or construct a completely new one, it is also important to have knowledge of how the Chinese construction sector operates.

The challenges of this market should not be underestimated, but support is available. At Currie & Brown, for instance, we have plenty of experience of working with foreign direct investment as well as an understanding of Chinese private healthcare.

We have, for example, just finished work on a US-funded private hospital in Shanghai and are also currently working with other international investors across the country.

In business terms, Chinese private healthcare is still at the pathfinding stage, but things are changing rapidly and interest is now set to grow very quickly. For those with the right expertise, connections and attitude to risk, this may well be the moment to take that 'great leap forward'.